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ROLE OF INDIAN BANKING IN ECONOMIC DEVELOPMENT

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ABSTRACT BANKING Sector plays an important role in every country for their economic growth as well as currency factor. Commercial banks mobilize savings of general public and make them available to large and small industrial and trading units mainly for working capital requirements. At the apex is the State Co-operative Bank (SCB) (cooperation being a state subject in India), at the intermediate (district) level are the Central Cooperative Banks (CCBs) and at the village level are Primary Agricultural Credit Societies (PACs). Capital formation, involves making of more capital goods such as machines, tools, factories, transport equipment, materials, electricity, etc., which are all used for future production of goods.

KEYWORDS : commercial banks, capital formation, currency factor.

INTRODUCTION:

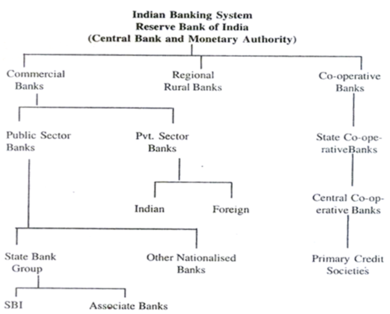
A Bank is a financial institution which is involved in borrowing and lending money. These loans and business investment are important for enabling economic growth. Main purpose of banks is to keep money safe for customers. Offer customers interest on deposits, helping to protect against money losing value against inflation.

Banking in India, in the modern sense, originated in the last decade of the 18th century. Among the first banks was the Bank of Hindustan, which was established in 1770. The largest bank, and the oldest still in existence, is the State Bank of India (S.B.I).

DEFINITION

According to the Indian Banking Regulation Act defined banking as the 'Accepting the deposits of money from the public which are repayable on demand for the purpose of lending or investment of the money acquired from the public in the form of deposits'.

STRUCTURE OF ORGANIZED INDIAN BANKING SYSTEM



STRUCTURE OF INDIAN BANKING SYSTEM

RESERVE BANK OF INDIA (RBI):

The RBI is the supreme monetary and banking authority in the country and controls the banking system in India. It is called the 'Reserve Bank' as it keeps the reserves of all commercial banks.

COMMERCIAL BANKS:

Commercial banks in India are largely Indian-public sector and private sector with a few foreign banks. The public sector banks account for more than 92 percent of the entire banking business in India, occupying a dominant position in the commercial banking. The State Bank of India and its 7 associate banks along with another 19 banks are the public sector banks.

SCHEDULED AND NON-SCHEDULED BANKS:

The scheduled banks are those which are enshrined in the second schedule of the RBI Act, 1934. These banks have a paid-up capital and reserves of an aggregate value of not less than Rs. 5 lakhs , they have to satisfy the RBI that their affairs are carried out in the interest of their depositors.

All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non- scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present these are only three such banks in the country.

REGIONAL RURAL BANKS:

The Regional Rural Banks (RRBs) the newest form of banks, came into existence in the middle of 1970s (sponsored by individual nationalized commercial banks) with the objective of developing rural economy by providing credit and deposit facilities for agriculture and other productive activities of all kinds in rural areas.

COOPERATIVE BANKS:

The cooperative credit institutions operating in the country are mainly of two kinds: agricultural (dominant) and non-agricultural. There are two separate cooperative agencies for the provision of agricultural credit: one for short and medium-term credit, and the other for long-term credit. The former has three tier and federal structure.

Long-term agriculture credit is provided by the Land Development Banks. The funds of the RBI meant for the agriculture sector actually pass through SCBs and CCBs. Originally based in rural sector, the cooperative credit movement has now spread to urban areas also and there are many urban cooperative banks coming under SCBs.

CAPITAL FORMATION

Capital formation involves making of more capital goods such as machines, tools, factories, transport equipment, materials, electricity, etc., which are all used for future production of goods.

PROCESS OF CAPITAL FORMATION:

The process of capital formation consists of the following three stages:

(a) Creation of Savings:

An increase in the volume of real savings so that resources, that would have been devoted to the production of consumption goods, should be released for purposes of capital formation.

(b) Mobilization of Savings:

A finance and credit mechanism, so that the available resources are obtained by private investors or government for capital formation.

(c) Investment of Savings:

The act of investment itself so that resources are actually used for the production of capital goods.

ROLE OF BANKS IN ECONOMIC DEVELOPMENT

The economic importance of commercial banks to the developing countries can be categorized into :

- Promoting capital formation

- Encouraging innovation
- Monetization
- Influence economic activity
- Facilitator of monetary policy

PROMOTING CAPITAL FORMATION

Economic development, but the rate of capital formation depends upon the rate of saving. But in underdeveloped countries, savings are very low. Banks afford facilities for saving and, thus encourage the habits of thrift in the community. They mobilize the idle and latent capital of the country and make it available for productive purposes.

ENCOURAGING INNOVATION

Innovation is another factor responsible for the economic development of a country. The entrepreneur in innovation is largely dependent on the mode in which bank credit is allocated and utilized in the process of economic growth. Bank credit facilitates entrepreneurs to innovate and invest, and thus uplift economic activity and progress.

MONETIZATION

Banks are the manufactures of currency notes. Banks monetize debts and also assist the backward subsistence sector of the rural economy by expanding their branches in to the rural areas. They should be replaced by the modern commercial bank's branches.

INFLUENCE ECONOMIC ACTIVITY

Banks can influence economic activity in a country by their influence on the interest rates and many other factors. They are in a position to influence the rate of interest in the money market through the supply of funds. Banks may follow an economical money policy with low interest rates which will tend to stimulate economic activity.

FACILITATOR OF MONETARY POLICY

Thus monetary policy of a country must be conductive to economic development. But a well-developed banking system is an essential pre-condition to the effective implementation of monetary policy. Under-developed countries can never ignore this fact.

FEATURES & CHARACTERISTICS OF BANKING SECTOR

Banking sector involves in following characteristics:-

- Dealing in money
- Acceptance of money deposits
- Payment and withdraws money
- Individual or companies
- Various branches
- Function increasing rapidly
- Business in banking sector
- Identification
- Facilities of advance money

DEALING IN MONEY

All banks basically deals with money as they are financial institute where we links for our moneys exchanges we will either gave or deposit money in banks or will led/barrow money from banks for our requirement .

ACCEPTANCE OF MONEY DEPOSITS

All banks always works for their consumer satisfaction as a result they accepts money from all their customers in a way there they also gave an Interest on deposited with the duration passed to money in bank. Banks deposits money from peoples & after that the protection of money is the responsibility of banks any misfortune happens to the consumer's money will be returned by banks to customer within a given period of time.

PAYMENT AND WITHDRAWS

A person who has deposit their money into bank can able to withdraw it at any time of instance. A customer can also able to easy payment & withdraw their money with the facilities of ATM, DRAFTS, MONEY ORDERS, and CHEQUES etc.

INDIVIDUAL OR COMPANIES

Bank can be of any type it can be a company or firm or also a person which are involved in the business of money. This is also how banks are defined.

VARIOUS BRANCHES

A bank can also have multiple branches for the facility of their customers as every person cannot be able to go to the main branch of the Bank so banks further grows their own branches so that they can reach to each n every person.

FUNCTIONS INCREASING

Banks always believe in developing of facilities for the customers so that they always increase their functions for working like developing latest ATM machines for the transactions of money and also net banking by which will be able to buy & sell any item from the sitting in our comfort zone.

BUSINESS IN BANKING

Banks do the business of money without any subsidiary business. There only responsibility is to satisfy their customers. This is also how banks define as they do the business of money interchanging from 1 hand to other.

IDENTIFICATION

Each bank has a unique name but having BANK name as common in all, which identifies the banks existence. People deals with different banks having different names but bank word in common in all of them.

FACILITY OF ADVANCE

Banks also lend/gave money to the people in a form of loan with minimum amount of interest. People which are not able to full fill their requirements at an instance of time which required a large amount of money at that time banks lend money to them so that they full fill their requirements and returns back in small installment which are known as EMIs.

CONCLUSION

Commercial banks play an important role in the financial system and the economy. They provide specialized financial services, which reduce the cost of obtaining information about both savings and borrowing opportunities. These financial services help to make the overall economy more efficient majority development for a country depends on banking sector as banks maintain the competition between currency of many developed and developing countries.

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